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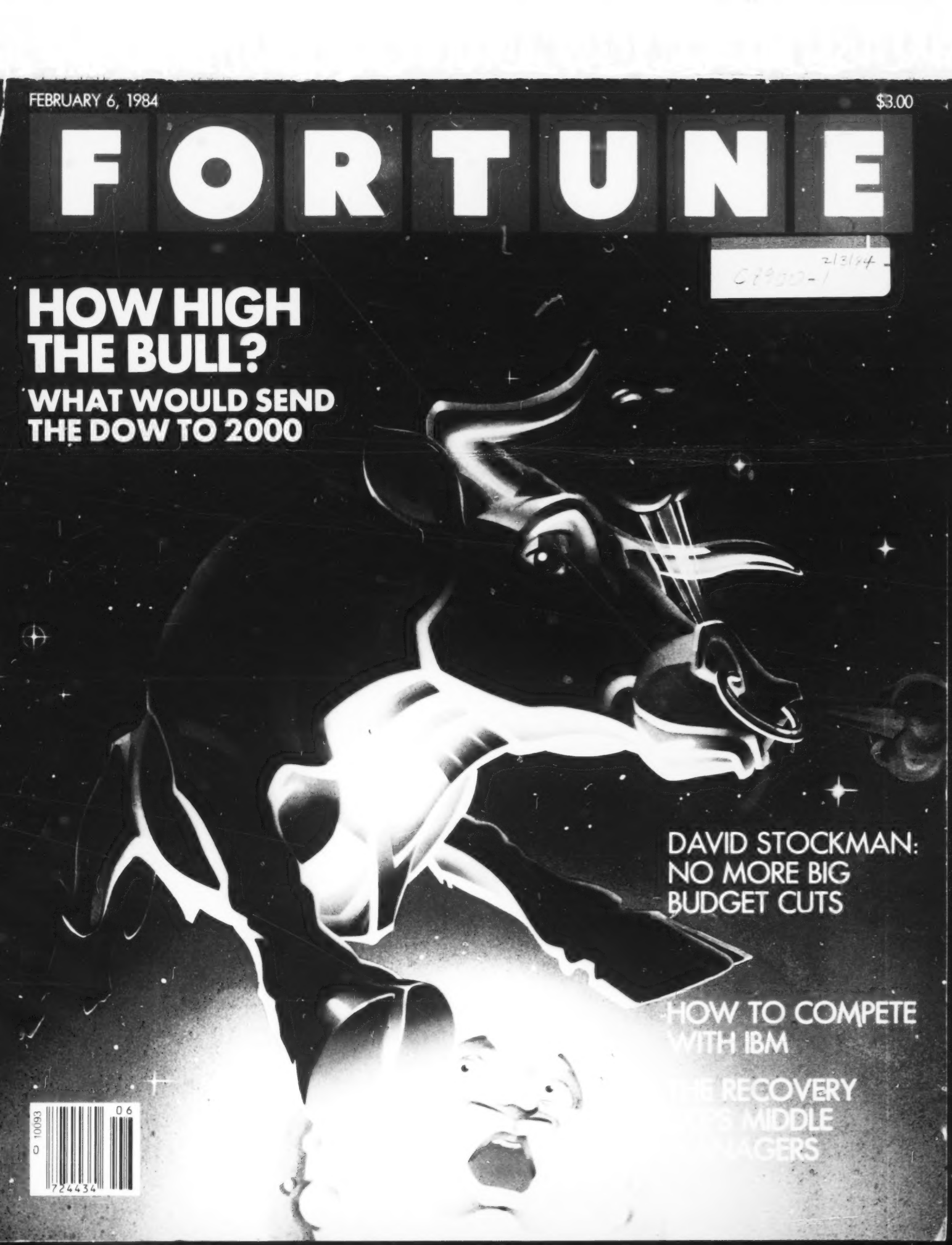
HOW HIGH THE BULL?

WHAT WOULD SEND THE DOW TO 2000



DAVID STOCKMAN: NO MORE BIG BUDGET CUTS

HOW TO COMPETE WITH IBM

RECOVERY
MIDDLE
AGERS

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More than a little dog will laugh with glee if the bull market, suggested in Greg Couch's cover painting, makes the leap that many experts predict. An analysis of what will shape its trajectory is on page 44.

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MANAGEMENT/JEREMY MAIN

THE RECOVERY SKIPS MIDDLE MANAGERS

■ Those workhorses of American business, middle managers, once seemed almost immune to economic downturns. No longer. The recession hit them hard, and the recovery hasn't helped much. Mid-managers who still have jobs can expect fewer promotions than in the past, smaller and less frequent raises, harder work, and stiffer demands for good performance. Those who were fired or pushed into early retirement find themselves seeking work in a résumé-flooded job market. "I never thought I'd be unemployed, I never thought I'd be unemployed this long, and I

Out-of-work executives *meet at the Forty Plus Club in Chicago to swap information and get advice and tips on job hunting. Club members must be unemployed, over 40, and have earned at least $25,000 a year.*

PHOTOGRAPHS BY MICHAEL ABRAMSON, CHICAGO

never thought I could survive this long," says Harold N. Bowen Jr., 53, who in 1982 lost his $34,000-a-year job as a sales manager at Dukane Corp., a Chicago maker of communications systems. Bowen, who worked for just two companies in 25 years, is still job hunting.

In their search for greater productivity and lower breakeven points, many large corporations sliced into managerial bureaucracy during the 1981-82 recession. On top of that, an outbreak of mergers, takeovers, and leveraged buyouts again and again left one job where two existed before.

WHY AFTER four successive quarters of economic recovery hasn't the market for middle managers revived? Deregulation and foreign competition force companies to keep cutting costs. Computerized systems lessen the need for information gathering, a principal task of corporate bureaucrats. Perhaps most important, the new corporate fashion calls for fewer levels of authority, with each manager controlling more people, and for participative management, with decisions pushed to lower levels of the company and out into the field.

The cliché of the moment is lean and mean. "I don't think any corporation is going to have a big corporate staff anymore," says William S. Woodside, chairman of American Can. His company sold its Dixie-Marathon division, lopping 800 people off the headquarters payroll in 1983, and trimmed other corporate staffs. Now American Can wants to sell its lavish headquarters in the estate country of Greenwich, Connecticut, and slip into something more modest. The parking lot that used to have no space for latecomers now offers choice spots at all times. "Instead of dealing with a large, ill-defined corporate staff," says Woodside, "the people in the field have to deal with just one of three officers, and they get fast reactions."

Middle managers can be defined roughly as salaried employees above the first two levels of supervisors and below the policymaking level. They make as much as $100,000 a year. The clearest evidence of their plight comes from executive search firms. After surveying 45 of its members in December, the Association of Executive Search Consultants reported that in 1983 requests to find managers for jobs paying less than $60,000 a year dropped 21% from 1982, a bad year. Openings for jobs paying $60,000 to $99,000 a year lagged behind 1982 during most of 1983, but turned up in the final quarter, for a net gain of 13%. By contrast the demand for jobs paying over $200,000, though only a tiny portion of the managerial universe, increased 86%.

No one has really good statistics about middle managers, but the Bureau of Labor Statistics reports that unemployment in the category of "managers and administrators" reached a peak of 4% in December 1982, the highest since the BLS started tracking the group in 1958. That, as usual, was lower than the unemployment rate of most other BLS categories, but a shock for managers accustomed to security. The rate has since dropped a bit but is still well above normal.

A survey of large U.S. corporations conducted in August for the Harvard Business School by LdG Associates, a Gardner, Massachusetts, business-research firm, found that 56% of the companies had cut middle management in the previous year (see chart on page 118). Even highly profitable and fast-growing companies did some trimming. Harvard Professor D. Quinn Mills, who analyzed the survey, says, "Something is really going on here."

To find out more about what that might be, D. Ronald Daniel, managing director of McKinsey & Co., a consulting firm, has proposed that Harvard undertake a long-term study. He conjectures that attitudes have changed for good—top managers have begun to value middle management less. McKinsey developed a method of evaluating management functions so a company can systematically spot and eliminate those functions that are least useful. With the functions gone, the people who perform them can be eliminated too. In a widely cited application of what's known as overhead value analysis, McKinsey helped Alcoa identify 20% of the corporate staff's functions as marginal, resulting in the elimination of 1,300 of 12,000 salaried jobs in 1982 and 1983.

Another method of cutting overhead is to increase the number of people each manager supervises—the so-called span of control. Xerox, faced with competition from Japanese copiers, has reduced total employment worldwide from 124,000 to 107,000 since 1981 and is still snipping away. The company puts special emphasis on trimming middle management to make executives more productive and has struck 100 of 365 managers from the headquarters roster in Stamford, Connecticut. Douglas M. Reid, Xerox vice president for personnel, says that any span of control that gives a manager fewer than six or seven people to supervise is suspect. In some cases, Reid says, Xerox has raised the span to 15, and many managers are "working leaders" who have assignments in addition to bossing others.

Geography and specialty make a lot of difference in the outlook for middle managers. The job market in Boston remains firm, but in the Midwest it's weak. Data processing offers plenty of jobs. Financial and health services are promising too. But corporate staff jobs are scarce in finance, planning, law, personnel, and public relations. Generally, people whose specialties involve making or selling things find work more readily than staff people.

Some specialists in the managerial marketplace insist that no real problem exists. One such is James E. Challenger, who heads a Chicago firm bearing his name that specializes in "outplacement"—helping dismissed executives find jobs. Challenger claims his clients are getting work in an average of 3.3 months each, about the same as in the past. In 1984, Challenger predicts, managers who job-hunt aggressively will readily find work. Other experts, among them Alan R. Schonberg, president of Management Recruiters International Inc., a Cleveland headhunting firm, are optimistic because they don't believe that corporate promises to stay lean can withstand the recovery much longer. "Fat creeps in," Schonberg says. "It's part of human nature in business."

THE MORE PREVALENT view holds that a fundamental change is under way. Eugene E. Jennings, professor of business administration at Michigan State University, describes a long-term trend that started in the early 1970s. The organizational structures of many companies resembled light bulbs rather than pyramids, with a lot of bloat at the top. IBM and a few other big compa-

"I don't think any corporation is going to have a big corporate staff anymore," says William S. Woodside, chairman of American Can.

RESEARCH ASSOCIATE *John Paul Newport Jr.*

Job Hunt in the Snow

Braving the Chicago weather, Harold N. Bowen Jr., 53, a jobless sales manager, sets off doggedly for another job interview. A member of the Forty Plus Club, Bowen has applied to 435 companies since he was laid off more than a year ago.

nies began to trim bureaucracies, and lean and mean caught on.

In most industries the No. 1 and No. 2 companies are reducing management slots, says Jennings, "but many others still haven't come to grips with the problem that management is just too expensive. We still have a lot of managers who can't solve a problem without throwing money and people at it. Some big companies still have 11 layers of management. My God, the Catholic Church only has four." (He refers to the Pope, archbishops [who are sometimes cardinals], bishops, and priests, but apparently doesn't take into account the notorious bureaucratic intricacies of the Vatican.)

General Electric is a many-layered company, but for a manager GE isn't the place it was. For example, the corporate planning staff, which grew to 70 people during the 1970s, has shrunk to 20. The planning staffs in each of the product sectors at GE—staffs that were expanded to cope with second-guessing at headquarters and demands for more information and analysis—are down from six or seven to one or two people each.

Rather than flatten the executive pyramid by taking out layers of command, says Donald E. Kane, GE's manager for corporate organization planning, GE took slices off the sides of the pyramid, cutting staff jobs in particular, so that there are fewer managers at each level. The average GE manager today faces a future that promises fewer opportunities and less security than his predecessor of a decade ago looked forward to. "The young executive then could expect a couple of promotions in his first ten years at GE," says Kane. "We can't promote him now as readily, and we can't leave him in one place all that time, so he will probably have a couple of lateral moves instead of promotions. That limits salary increases." Kane adds that the most promising people hired from top business schools will still be able to move up fast.

FOR THE VERY BEST middle managers—ones who are well trained, flexible, extra hard-working, and likely as not younger than average—shrinking management creates opportunity. In a lean organization, good managers will be more visible and have more access to the top and more freedom to make decisions. When a Bank of America officer heard in December that the bank planned to streamline, shutting down 120 branches and eliminating 10% of the bank's jobs, he said, "My gosh, it seems like I'll get the license to actually manage. That's wonderful." Wonderful, if he isn't one of those culled.

Gradall Co. in New Philadelphia, Ohio, a maker of excavators and loaders with telescopic arms for the construction industry, slashed the total work force from 557 to 288 in 1982. At the same time, however, the company offered exceptional opportunities to a few promising executives. James C. Cahill, 31, left LTV to report for work in September 1982, three days after Gradall had laid off 100 people, including nearly half the quality assurance staff he was supposed to manage.

He met little resentment because Gradall President C. William Gray had spread the word that in the midst of what he calls a depression he would be hiring a few people with special qualifications vital to the survival of the company. Cahill had a skill Gray needed—he had supervised advanced engineering systems such as CAD/CAM at Fiat-allis, a joint venture of Fiat and Allis-Chalmers making heavy construction machinery in Springfield, Illinois. Gray assigned him to introduce CAD/CAM systems for Gradall engineers to use. Gray says he tells his managers to be "cross-functional" and to "think outside the box" of their own specialty.

In addition to managing quality assurance and CAD/CAM, Cahill super-

vised the integration into the Gradall business of a line of forklifts purchased from another manufacturer. In the company's plump days at least two managers would have handled these jobs. Cahill works hard, from 6 A.M. to 6 P.M. most days. "There's pressure to learn and to learn very quickly," he says. He adds: "This was most beneficial. It showed me how businesses are run from top to bottom."

Gray cut his management staff from 38 to 22. "There are flexible people and there are rigid people," he says, "and we used the depression to increase the number of flexible people. Unfortunately, that had a bad effect on some of the rigid people." Rigid people tend to be older. About 17 salaried employees at Gradall took early retirement, 52 others got laid off. Those who stayed get more varied assignments—and work harder.

Since many corporations are shrinking, more managers are hunting for than finding new jobs. "There are a lot of good people out on the street through no fault of their own," says James C. Cabrera, president of Drake Beam Morin Inc., a New York outplacement firm. Most of those under 55 will end up with good jobs, he predicts, maybe better jobs than the ones they lost, but the search is likely to be longer and harder than they expected.

Consider Bruce V. Keller, 46, of Princeton, New Jersey. He made $65,000 a year as director of operations at Johnson & Johnson's J&J Products' adhesive bandage plant in Chicago. But he has been on the job market now for two years.

THE FIRST YEAR'S effort netted four job possibilities, all of which died. When he answered Knoll International's ad for a vice president, he found himself one of 750 applicants. He was among 30 finalists, but Knoll decided to appoint an insider to the job.

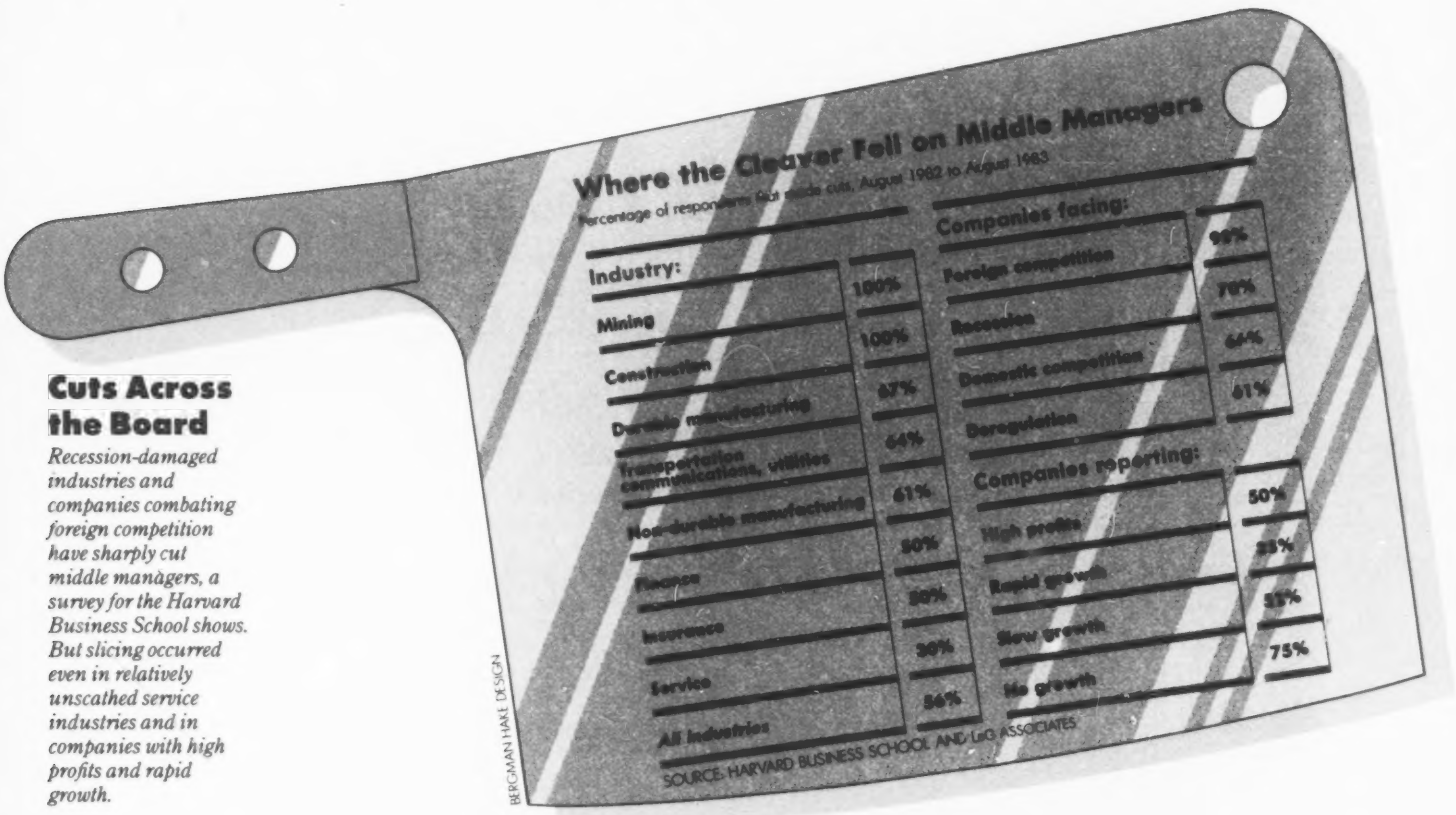
Many unemployed managers have little reason to be confident about the future. After 31 years with the Kemper insurance group, John Hayes, 54, was making $28,000 a year as an administrator in a section that analyzed high-risk insurance policies. He expected to go on doing that until he retired. "I had the feeling Kemper was the best place to work for the rest of my life," he says. But underwriting losses hit insurance companies, and 9% of Kemper's home office employees in Long Grove, Illinois, lost their jobs in January 1983. Hayes was one.

For the last year he has been active in Chicago's Forty Plus Club, made up of out-of-work executives who try to help each other find work. Hayes has discovered that all the big insurance companies around Chicago are in the same pickle as Kemper. They are not hiring. At a recent meeting of the Forty Plus Club, an outplacement specialist told Hayes that he would fit the corporate mold better if he got rid of his beard, but he won't do that.

Now he plans to seek full- or part-time work as an office manager at small insurance agencies near his home in Libertyville, 40 miles northwest of Chicago. "I'd be happy to find a job like that at $15,000 a year," says

Keeping in Touch

Out of work for a year, John Hayes (left) lunches regularly with former Kemper insurance colleagues near Kemper's Long Grove, Illinois, headquarters. His ex-boss, Clyde L. Eriksen, 58 (seated beside Hayes), has just been induced by Kemper to take early retirement—and already has another job. Hayes, 54, is still looking.



Cuts Across the Board

Recession-damaged industries and companies combating foreign competition have sharply cut middle managers, a survey for the Harvard Business School shows. But slicing occurred even in relatively unscathed service industries and in companies with high profits and rapid growth.

Hayes, who is not too worried about security. He has an income from savings and the proceeds of his Kemper profit-sharing fund. His children are grown and his wife works, so it won't take much income to maintain their standard of living.

Another member of the Chicago Forty Plus Club, Tom Lucas lost his $32,000-a-year job in the advertising division of the U.S. League of Savings Institutions four years ago. He had been with the organization 31 years and five months. He was 58, but he thought the four months' pay the League gave him would last until he got another job. "I had a sense of anger and shock," he remembers, "but I didn't have a sense of panic. I was okay because I was going to get a job."

All he has picked up is consulting work. "The job hunt has been extremely difficult," he says. Now he is waiting to hear from an ad agency. "But I learned on my great-uncle's farm that just because a hen's on the nest doesn't mean there's an egg there. You get careful about getting your hopes too high because it's a long fall." Married, with one child in college and another still in high school, he adds quietly, "The money is coming to an end."

Hayes and Lucas are handicapped by age, by having specialties that are not much in demand, and by geography. They haven't looked much beyond Chicago, one of the hardest-hit cities in the U.S. A further handicap faced by many displaced managers is that they are not very good at job hunting. They haven't done it for years, or even decades. As likely as not, each manager thrust into the job market will send out hundreds of letters and résumés in broadcast style to join tens of thousands already lying forgotten in the files of headhunters and recruiters. Then the manager waits for something to happen.

EACH WEEK, according to Richard D. Sbarbaro, president of Lauer Sbarbaro Associates Inc., a Chicago search firm, his company gets 400 to 500 unsolicited résumés. Lauer Sbarbaro fills 100 jobs a year, but finds only two or three successful candidates a year in that flood of unsolicited inquiries.

Middle managers can't look for better days very soon—and maybe not ever. Many large companies in steel, autos, and other industries will continue streamlining. General Motors, which whacked white-collar employment from 151,500 in 1978 to 128,000 today, will cut deeper—it hopes by attrition—as the reorganization announced in January takes effect (see page 7). Ford intends to keep trimming white-collar staff through 1985; more than 21,000 salaried workers in Ford's auto-related businesses in the U.S. have been dropped since 1979. Chrysler is reopening plants and adding shifts to meet growing sales, rehiring production workers and people to manage them. But the company sees no need to hire staff managers, no matter how sales go up. Chrysler says it will hold salaried staff to 22,000, compared with 40,000 in the late 1970s.

In other industries, too, companies that have been slimming for years intend to stay on anti-fat regimens. Weyerhaeuser, for example, has slashed salaried payroll from 13,000 to 10,000 and plans to pare for another two or three years. Should an unexpected boom in lumber come along, Weyerhaeuser says it will hire temporary consultants rather than permanent managers.

Some industries, including insurance and banking, still have a lot of slimming to do. Insurance companies are closing regional offices and, with

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FORTUNE

ROBERT HOWARD

Some Get a Break

A few lucky managers with the right qualifications benefit from corporate culling. In the midst of drastic layoffs, Gradall Co. in New Philadelphia, Ohio, hired James Cahill, 31, because he has the high-tech engineering experience the company needs to survive.

the help of automation, shrinking back-office staffs. As America's 14,000 commercial banks merge and streamline in the more competitive years ahead, many more managers will be looking for jobs.

THE NEWLY COMPETITIVE telephone industry is coming down hard on management puffiness. As Ameritech, the Midwestern child of divestiture, prepared to leave the Bell System, it cut middle management by 26.5% through attrition and early retirement offers for employees 55 and older. Illinois Bell, one of Ameritech's operating companies, has reduced the number of middle managers in the $45,000- to $100,000-a-year range from 3,000 to 1,900 and dropped six of 15 company officers.

Philosophers of business are already beginning to speculate about the deeper implications of the dark outlook for middle managers. "The life contract implied in employment with a paternalistic oligopoly no longer exists," says Larry Hirschhorn, a senior researcher at the Wharton School's management and behavioral science center in Philadelphia. "The glue between manager and employer is loosening." Hirschhorn thinks middle management is being transformed by lasting—not cyclical—changes. Middle managers may never again feel as secure as they felt in the past.

■ Whether companies that trim their staffs will be able to stay thin in prosperous years depends very much on how they go about losing weight. Companies that arbitrarily slash, say, 10% of their force without reducing functions and increasing spans of control may have to start hiring again as sales increase and the work load goes right back up. But companies that began slimming by eliminating the tasks that seemed nonessential and then cut the people who performed those tasks will be able to stay thin. The tasks eliminated don't come back to life when prosperity returns, so staffs don't have to be fattened up again. ■